

PERAC AUDIT REPORT



Norwood Contributory Retirement System



JAN. 1, 2012 - DEC. 31, 2014



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

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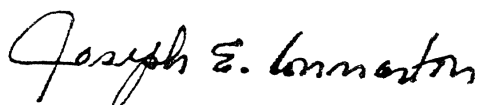
December 20, 2016

The Public Employee Retirement Administration Commission has completed an examination of the Norwood Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2012 to December 31, 2014. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Michael Pasternak and Kevin McCarthy who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Pension Appropriations

An examination of appropriation payments indicated that the FY 2014 appropriation from the Town was initially underfunded by \$199,287, which was a result of the ERI portion of the appropriation not being included on the original warrant approved at Town Meeting. The Retirement Board notified the Town on September 26, 2013 that the amount noted above was due to the Retirement System. Subsequently, the Board was notified by PERAC on November 7, 2013 of a revised appropriation amount of \$3,785,513, increasing the original appropriation by \$185,513, (Town portion \$179,707 and Housing Authority portion \$5,806). The Town made two additional payments in December 2013 and January 2014 totaling \$194,287, leaving an unfunded balance of \$190,513 due to the Retirement System for the Fiscal Year 2014 appropriation. This unfunded balance has not been received.

Recommendation: The Board needs to work very closely with the Town and the Housing Authority to insure appropriations are collected on a timely basis. The Board is obligated to collect the full amount of the assigned appropriations from its units. Appropriations shall be paid from any available funds in the treasury of the governmental unit obligated by law to support the system. It should be noted that the actual cost of late payments is that of interest income foregone by the System.

Board Response:

The Board agrees with this finding and has requested that Jim Lamenzo add the \$185,513 to the required FY18 appropriation so that the Board may request that the Town place it on the Annual Town Meeting Warrant. The difference of \$5,000 was requested and received prior to the audit report being issued.

The Board will make certain that any revised appropriation letters are handled in a timely manner.

2. Retiree Affidavits

The last mailing of retiree affidavits for the audit period was in December of 2013. Although there were 21 retirees/beneficiaries who did not reply, there were no second requests sent. Of these 21, two retirees have subsequently passed away and an additional nine responded to the next mailing of affidavits. The remaining ten retirees' status could not be verified but they continue to be on the payroll. Additionally, it was also noted that the affidavits mailed after December 2013 exceeded the two year requirement by being mailed in the first quarter of 2016.

Recommendation: The Board and staff must comply with 840 CMR 15.01 which requires that affidavits be sent out at least once every two years. A policy should be developed to cover both the recording of the receipt of an affidavit and stopping the benefit payments to retirees who do not respond within a reasonable time period.

Board Response:

The Board agrees with this finding and acknowledges that the process although started late in 2013 was not completed. The affidavits issued in early 2016 have all been signed and returned, including

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

the ten who had not previously responded in 2013/2014. Please note that no deceased retiree received benefits due to this issue.

The Board will make certain that affidavits are issued every two years going forward and that all retirees have responded. If no response is received in a timely fashion the Board will review and take the necessary steps.

3. Board Member Attendance

A review of meeting attendance by Board members revealed a significant level of absenteeism. One member missed 33% of meetings in 2013 and 27% of the meetings in 2014. The result is an attendance rate for the Board member which was below the seventy-five percent minimum considered reasonable.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. It should be noted that Board members receive a stipend in consideration for regular attendance and participation at the monthly Board meetings. In instances where a significant level of absenteeism occurs, it is the Board's responsibility to take appropriate action with members who fail to maintain minimum attendance requirements.

Board Response:

The Board agrees with this finding and has since adopted Remote Participation to ensure that the Board Members will be accommodated should they be unable to physically attend a scheduled meeting. Also, the Board is flexible and will change a meeting date to make certain all members are able to attend. Each month the Director provides an attendance spreadsheet for the members to review.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2014	2013	2012
Net Assets Available For Benefits:			
Cash	\$ 789,061	\$ 2,016,844	\$ 1,385,305
Fixed Income Securities	6,342,390	6,098,496	6,707,810
Equities	29,389,682	28,019,840	17,838,625
Pooled Short Term Funds	293,655	0	0
Pooled Domestic Equity Funds	6,858,738	5,928,702	0
Pooled International Equity Funds	17,033,090	16,202,110	24,705,904
Pooled Global Equity Funds	18,773,254	18,452,895	12,424,158
Pooled Domestic Fixed Income Funds	1,184,950	0	29,963,207
Pooled International Fixed Income Funds	14,160,446	19,164,979	0
Pooled Global Fixed Income Funds	6,620,177	9,451,081	8,857,217
Pooled Alternative Investment Funds	5,676,613	6,407,676	0
Pooled Real Estate Funds	14,422,180	12,659,913	9,166,458
Pooled Private Equity	6,674,278	0	0
Hedge Funds	10,052,481	9,520,311	8,459,421
Interest Due and Accrued	30,029	31,290	34,166
Accounts Receivable	65,807	244,683	15,276
Accounts Payable	(111,909)	(393,985)	(68,604)
Total	\$ 138,254,922	\$ 133,804,834	\$ 119,488,943
Fund Balances:			
Annuity Savings Fund	\$ 32,766,191	\$ 32,076,943	\$ 30,563,728
Annuity Reserve Fund	8,334,100	7,383,224	7,714,203
Pension Fund	0	0	0
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	97,154,631	94,344,667	81,211,011
Total	\$ 138,254,922	\$ 133,804,834	\$ 119,488,943

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2012)	\$29,330,561	\$7,483,715	\$0	\$0	\$72,961,199	\$109,775,475
Receipts	2,897,760	226,176	3,678,976	876,224	12,069,480	19,748,616
Interfund Transfers	(1,216,163)	1,216,163	3,819,668	0	(3,819,668)	0
Disbursements	(448,430)	(1,211,851)	(7,498,644)	(876,224)	0	(10,035,148)
Ending Balance (2012)	30,563,728	7,714,203	0	0	81,211,011	119,488,942
Receipts	2,825,862	229,251	3,726,441	1,056,753	17,211,537	25,049,843
Interfund Transfers	(940,318)	952,551	4,065,647	0	(4,077,880)	(0)
Disbursements	(372,329)	(1,512,781)	(7,792,088)	(1,056,753)	0	(10,733,950)
Ending Balance (2013)	32,076,943	7,383,224	0	0	94,344,668	133,804,834
Receipts	3,042,708	237,252	4,421,541	1,222,110	6,482,749	15,406,359
Interfund Transfers	(2,106,374)	2,106,377	3,672,781	0	(3,672,785)	0
Disbursements	(247,087)	(1,392,753)	(8,094,322)	(1,222,110)	0	(10,956,272)
Ending Balance (2014)	\$32,766,191	\$8,334,100	\$0	\$0	\$97,154,631	\$138,254,922

STATEMENT OF RECEIPTS

FOR THE YEAR ENDING DECEMBER 31,			
	2014	2013	2012
Annuity Savings Fund:			
Members Deductions	\$ 2,782,410	\$ 2,658,950	\$ 2,572,534
Transfers from Other Systems	167,838	105,083	234,886
Member Make Up Payments and Re-deposits	54,659	23,051	57,589
Investment Income Credited to Member Accounts	37,802	38,777	32,751
Sub Total	<u>3,042,708</u>	<u>2,825,862</u>	<u>2,897,760</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>237,252</u>	<u>229,251</u>	<u>226,176</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	212,653	204,288	228,069
Received from Commonwealth for COLA and Survivor Benefits	110,712	117,739	134,633
Pension Fund Appropriation	4,092,676	3,404,414	3,311,275
Settlement of Workers' Compensation Claims	5,500	0	5,000
Sub Total	<u>4,421,541</u>	<u>3,726,441</u>	<u>3,678,976</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>1,222,110</u>	<u>1,056,753</u>	<u>876,224</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	72,913	74,151	83,154
Interest Not Refunded	1,114	14	167
Miscellaneous Income	267	0	9,597
Excess Investment Income	6,408,455	17,137,371	11,976,562
Sub Total	<u>6,482,749</u>	<u>17,211,537</u>	<u>12,069,480</u>
Total Receipts, Net	<u>\$ 15,406,359</u>	<u>\$ 25,049,843</u>	<u>\$ 19,748,616</u>

STATEMENT OF DISBURSEMENTS

FOR THE YEAR ENDING DECEMBER 31,			
	2014	2013	2012
Annuity Savings Fund:			
Refunds to Members	\$ 79,011	\$ 157,111	\$ 183,459
Transfers to Other Systems	168,075	215,218	264,971
Sub Total	<u>247,087</u>	<u>372,329</u>	<u>448,430</u>
Annuity Reserve Fund:			
Annuities Paid	1,382,655	1,287,725	1,210,744
Option B Refunds	10,098	225,056	1,107
Sub Total	<u>1,392,753</u>	<u>1,512,781</u>	<u>1,211,851</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	5,312,872	5,001,375	4,735,919
Survivorship Payments	492,799	464,259	438,049
Ordinary Disability Payments	62,718	75,392	89,555
Accidental Disability Payments	1,530,545	1,455,413	1,470,633
Accidental Death Payments	401,735	411,171	483,469
Section 101 Benefits	83,184	97,056	75,182
3 (8) (c) Reimbursements to Other Systems	210,469	287,421	205,837
Sub Total	<u>8,094,322</u>	<u>7,792,088</u>	<u>7,498,644</u>
Expense Fund:			
Board Member Stipend	16,000	15,000	16,500
Salaries	152,222	151,766	149,810
Legal Expenses	4,046	10,337	4,509
Travel Expenses	880	4,535	(134)
Administrative Expenses	7,551	15,627	9,097
Professional Services	0	8,000	8,000
Actuarial Services	9,750	11,000	0
Education and Training	5,181	0	0
Management Fees	843,325	672,978	515,699
Custodial Fees	78,016	74,571	74,571
Consultant Fees	77,500	70,000	70,000
Service Contracts	20,652	16,283	21,524
Fiduciary Insurance	6,988	6,656	6,647
Sub Total	<u>1,222,110</u>	<u>1,056,753</u>	<u>876,224</u>
Total Disbursements	\$ <u>10,956,272</u>	\$ <u>10,733,950</u>	\$ <u>10,035,148</u>

INVESTMENT INCOME

	FOR THE YEAR ENDING DECEMBER 31,		
	2014	2013	2012
Investment Income Received From:			
Cash	\$ (227)	\$ 125	\$ 1,031
Fixed Income	76,567	81,922	120,224
Equities	471,104	375,444	325,374
Pooled or Mutual Funds	<u>3,042,637</u>	<u>1,864,354</u>	<u>1,058,416</u>
Total Investment Income	<u>3,590,081</u>	<u>2,321,844</u>	<u>1,505,046</u>
Plus:			
Realized Gains	2,930,833	2,447,256	1,385,224
Unrealized Gains	12,067,570	18,180,721	13,981,684
Interest Due and Accrued - Current Year	<u>30,029</u>	<u>31,290</u>	<u>34,166</u>
Sub Total	<u>15,028,433</u>	<u>20,659,266</u>	<u>15,401,075</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(1,096)	(410)	(26,895)
Realized Loss	(626,471)	(197,153)	(291,381)
Unrealized Loss	(10,054,038)	(4,287,229)	(3,437,916)
Interest Due and Accrued - Prior Year	<u>(31,290)</u>	<u>(34,166)</u>	<u>(38,216)</u>
Sub Total	<u>(10,712,895)</u>	<u>(4,518,958)</u>	<u>(3,794,408)</u>
Net Investment Income	<u>7,905,619</u>	<u>18,462,152</u>	<u>13,111,713</u>
Income Required:			
Annuity Savings Fund	37,802	38,777	32,751
Annuity Reserve Fund	237,252	229,251	226,176
Expense Fund	<u>1,222,110</u>	<u>1,056,753</u>	<u>876,224</u>
Total Income Required	<u>1,497,164</u>	<u>1,324,781</u>	<u>1,135,151</u>
Net Investment Income	7,905,619	18,462,152	13,111,713
Less: Total Income Required	<u>1,497,164</u>	<u>1,324,781</u>	<u>1,135,151</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$ 6,408,455</u>	<u>\$ 17,137,371</u>	<u>\$ 11,976,562</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2014		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$789,061	0.6%
Fixed Income Securities	6,342,390	4.6%
Equities	29,389,682	21.3%
Pooled Short Term Funds	293,655	0.2%
Pooled Domestic Equity Funds	6,858,738	5.0%
Pooled International Equity Funds	17,033,090	12.3%
Pooled Global Equity Funds	18,773,254	13.6%
Pooled Domestic Fixed Income Funds	1,184,950	0.9%
Pooled International Fixed Income Funds	14,160,446	10.2%
Pooled Global Fixed Income Funds	6,620,177	4.8%
Pooled Alternative Investment Funds	5,676,613	4.1%
Pooled Real Estate Funds	14,422,180	10.4%
Pooled Domestic Balanced Funds	6,674,278	4.8%
Hedge Funds	<u>10,052,481</u>	<u>7.3%</u>
Grand Total	<u><u>\$138,270,995</u></u>	<u><u>100.0%</u></u>

For the year ending December 31, 2014, the rate of return for the investments of the Norwood Retirement System was 5.86%. For the five-year period ending December 31, 2014, the rate of return for the investments of the Norwood Retirement System averaged 8.97%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Norwood Retirement System was 9.28%.

The composite rate of return for all retirement systems for the year ending December 31, 2014 was 7.81%. For the five-year period ending December 31, 2014, the composite rate of return for the investments of all retirement systems averaged 10.08%. For the 30-year period ending December 31, 2014, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.43%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Norwood Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

March 28, 2001

Investment/Supplemental Regulation

Regulation Number 16.08: In accordance with PERAC Investment Guideline 99-2, the Norwood Retirement System may modify its fixed income mandate with David L. Babson to allow for opportunistic investment in high-yield securities up to a maximum of 10% of the total portfolio. Babson has been the system's fixed income manager for over six years. The Board and its consultant have examined and are satisfied with Babson's capabilities in the high-yield sector. (This regulation is outdated, as the Norwood Retirement System no longer retains this fixed income manager).

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Norwood Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 104 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$821.52 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$821.52 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-rata will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23(2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Norwood Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership:

February 13, 1991:

Any new hires must earn a minimum of \$5000.00 per year and work a minimum of twenty (20) hours per week to be eligible for membership into the Norwood Retirement System. (Traffic and Cafeteria Workers are exempt).

Creditable Service:

December 31, 1984:

1. Service Credit for Employees on Provisional Basis.

Employees who are employed on a full-time regular basis and wish to receive credit for the time they spent on a provisional or part-time basis will be given credit for each month worked prior to becoming a full-time regular employee. Any part of a month is to be considered a full month.

2. Part-time employees:

The minimum salary for acceptance of part-time workers into the Norwood Contributory Retirement System shall be \$1500.00 yearly. Anyone earning less than \$1500.00 will not be accepted as a member.

In each and every case concerning part-time workers the board shall determine what service credit shall be for each individual permanent part-time position. The basis for a full year's credit shall be 2000 hours.

The Board has determined that this policy on part-time workers shall apply to all part-time workers now in the system as well as those who join the retirement system in the future.

3. Police Traffic Supervisors and Cafeteria Workers:

Police Traffic Supervisors and School Cafeteria Workers shall receive a full year's credit for each year worked. (Amended February 13, 1991. See Membership).

Miscellaneous:

December 31, 1997:

MAKE-UP PAYMENT:

The minimum deduction regarding make-up payments would be no less than \$10.00 per week, or \$500.00 per year.

July 7, 1986:

ELECTION RULES:

Sixty-day notice requirement for use in retirement board election.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Clerk/Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Thomas McQuaid

Appointed Member: Ted Mulvehill Term Expires: Indefinite

Elected Member: Eileen Hickey Term Expires: 10/14/19

Elected Member: Thomas O'Toole, Chairman Term Expires: 12/1/17

Appointed Member: Thomas A. Rorrie Term Expires: 9/2/19

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Sherman Actuarial Services as of January 1, 2014.

The actuarial liability for active members was	\$88,970,675
The actuarial liability for retirees, beneficiaries, disabilities and inactives members was	77,417,453
The total actuarial liability was	\$166,388,128
System assets as of that date were	128,038,571
The unfunded actuarial liability was	<u>\$38,349,557</u>
 The ratio of system's assets to total actuarial liability was	 77.0%
As of that date the total covered employee payroll was	\$29,112,640

The normal cost for employees on that date was 8.2% of payroll

The normal cost for the employer was (including administrative expenses) 3.4% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum

Rate of Salary Increase: 3.00% per annum

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2014	\$128,038,571	\$166,388,128	\$38,349,557	77.0%	\$29,112,640	131.7%
1/1/2012	\$117,666,912	\$149,016,276	\$31,349,364	79.0%	\$28,520,480	109.9%
1/1/2010	\$114,267,404	\$136,060,814	\$21,793,410	84.0%	\$28,436,632	76.6%
1/1/2007	\$107,392,239	\$119,744,801	\$12,352,562	89.7%	\$25,566,200	48.3%
1/1/2005	\$94,750,560	\$107,755,858	\$13,005,298	87.9%	\$23,712,706	54.8%
1/1/2004	\$85,399,470	\$106,026,223	\$20,626,753	80.5%	\$21,566,212	95.6%
1/1/2002	\$86,804,347	\$92,331,925	\$5,527,578	94.0%	\$20,777,071	26.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retirement in Past Years										
Superannuation	11	15	12	8	13	14	21	19	11	18
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	1	0	1	1	5	1	0	1	1
Total Retirements	11	16	12	9	14	19	22	19	12	19
Total Retirees, Beneficiaries and Survivors	357	377	361	362	354	349	382	363	361	361
Total Active Members	610	556	564	582	576	554	610	595	571	585
Pension Payments										
Superannuation	\$3,457,721	\$3,737,116	\$3,974,739	\$4,001,216	\$4,203,248	\$4,342,954	\$4,616,514	4,735,919	5,001,375	5,312,872
Survivor/Beneficiary Payments	332,954	350,861	409,657	405,908	409,976	423,483	409,879	438,049	464,259	492,799
Ordinary Disability	159,018	134,394	129,734	124,905	114,557	85,655	87,530	89,555	75,392	62,718
Accidental Disability	996,473	1,019,222	1,047,860	1,133,688	1,129,627	1,260,495	1,351,209	1,470,633	1,455,413	1,530,545
Other	686,172	602,767	595,261	702,119	690,609	713,886	721,313	558,651	508,227	484,919
Total Payments for Year	\$5,632,338	\$5,844,360	\$6,157,251	\$6,367,836	\$6,548,017	\$6,826,473	\$7,186,445	\$7,292,807	\$7,504,667	\$7,883,853

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